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Info FROM: BERLIN

RMR TO: Secretary of State

SS NO: 437, DECEMBER 2, 5 PM (SECTION ONE OF TWO)

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INR H P UOP WMSC E IRC DCL ICA OCB USIA CIA OSD ARMY NAVY AIR WIC
SENT BONN 388, POLAD USAREUR 151, DEPARTMENT 437, REPEATED INFORMATION PARIS 92, MOSCOW 144, LONDON 78.

PARIS ALSO PASS CINCEUR THURSTON AND WEST.

REF: OURTEL 360 TO BONN, 409 TO DEPT.

A. GENERAL

DELIVERY SOV NOTES RELAXED TENSION SOMEWHAT BY LESSENING UNCERTAINTY AS TO EXACTLY WHEN AND HOW SOVIETS PROPOSE ACT AGAINST BERLIN AND ALLIED GARRISONS. UNDERCURRENT ANXIETY PERSISTS, HOWEVER, STEMMING FROM BASIC MISTRUST SOVS AND FROM TIME BOMB CHARACTER SIX MONTHS DEADLINE, CONCERN ABOUT ECONOMIC EFFECTS OF PRESSURES, RUMORED ALLIED DIVERGENCIES, AND LINGERING UNCERTAINTY WHETHER AMERICANS MIGHT EVENTUALLY DEAL WITH UBLRIGHT REGIME. UNCOMPROMISING STAND AGAINST ANY ACCEPTANCE GER AS PRINCIPALS OR AGENTS IS TOUCHSTONE ALLIED GOOD FAITH FOR BERLINERS WHO SEE UBLRIGHT REGIME AS NOT JUST ANOTHER COMMUNIST SATRAPPY BUT AS CONSPIRACY OF TRAITORS.

MASS POPULATION SEEMS UNSHAKEN AND LEADERS EXPRESS CONFIDENCE THOUGH WORRIED. LESSER OFFICIALS AND TRADE UNION FUNCTIONAIRES AND SOME BUSINESSMEN APPEAR WEAKEST ELEMENTS. WORRY ON ECONOMIC SCORE DIRECTED MAINLY AT FEAR DECLINE IN ORDERS, FLIGHT CAPITAL AND EVEN ENTERPRISES, AND POSSIBLE COMMUNIST TRADE OFFENSIVE.

BOLSTERING FACTOR IS WIDESPREAD POPULAR FEELING BERLINERS MUST LIVE UP TO BLOCKADE EARNED REPUTATION, POINT SENATOR LIPSCHITZ AND OTHERS HAVE UNDERLINED IN ELECTION RALLIES.

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BRANDT ALSO WAS APPLAUDED AT METAL WORKERS MEETING WHEN HE ENDEAVORED COUNTERACT OMINOUS CHARACTER SIX MONTHS DEADLINE BY WELCOMING IT AS BREATHING SPACE IN WHICH TO PLAN, MANEUVER AND NEGOTIATE, AND ALSO AS PROOF SOVS FEAR IMMEDIATE SHOWDOWN.

PRESIDENT'S STATEMENT THROUGH SECRETARY WELL RECEIVED. RATE REFUGEE INFUX DURING WEEK AND WEEK-END BASICALLY UNCHANGED FROM PREVIOUS WEEK.

B. INDIVIDUAL REACTIONS.

BERLIN DGB CHAIRMAN AND SPD BUNDESTAG DEPUTY SCHARNOWSKI SHOCKED FIND LOW STATE MORALE AMONG DGB FUNCTIONAIRES WITH FEW EXCEPTIONS ON HIS RETURN BERLIN SATURDAY. HE TONGUE-LASHED THEM AS "OLD WOMEN" AND TOLD THEM GET OUT FROM BEHIND DESKS AND TRY IMPART CONFIDENCE INSTEAD GLOOM AMONG WORKERS. HE HAS MORE FAITH IN SPUNK AND COMMON SENSE RANK AND FILE WORKERS AND MASS POPULATION THAN IN MOST FUNCTIONAIRES AND MINOR BUREAUCRATS. HE SAID MONTHS WAITING PERIOD SHOWS SOV FEAR SHOWDOWN AND WAGE "WAR OF NERVES" AND ATTEMPT "BRAINWASH" BERLINERS. LATTER HE SAID MUST ACCEPT CHALLENGE AND NOT GIVE UP WITHOUT FIGHT. SCHARNOWSKI ALSO DISGUSTED WITH TALK HE HEARD IN FEDERAL MINISTRIES OF EVACUATING SOCIAL INSURANCE FILES AND OTHER DOCUMENTS, AND WITH REPORTS SOME WEST GERMAN WHOLESALERS DEMANDING CASH FROM BERLIN BUYERS, AND SOME INSURANCE FIRMS PUTTING OFF ACCEPTANCE LARGE BERLIN POLICIES. HE HIT CEILING ON LEARNING THAT FUNCTIONAIRES OF DGB BANK AND INSURANCE COMPANY EMPLOYEES UNION, ALARMED BY REPORTS SUCH DEVELOPMENTS, WERE CONCOCTING PLANS FOR SIXTY AUTOMOBILE EVACUATION CARAVAN.

ACCORDING DEPUTY CHIEF BUNDESHAUS BERLIN, GEFAELLER, SOME "NERVOUS NELLIES" AMONG BERLIN BUSINESSMEN HAVE ALREADY BEGUN TRANSFER FUNDS AND VALUABLE MERCHANDISE TO FEDREP, AS THEY DID DURING KOREAN AND SUEZ CRISSES. SOME BUSINESSMEN ALSO ASKING FOR "FEDERAL GUARANTEES" FROM BONN, HE SAID, WHICH GOVERNMENT HAS WISELY REFUSED AS ONLY CONDUCIVE FURTHER UNREST. GEFAELLER, WHO IS ALSO ALL-GERMAN AFFAIRS

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MINISTRY OFFICIAL AND MEMBER KURATORIUM UNTEILBARES DEUTSCHALAND,
CONCERNED ABOUT EFFECT ON SOV ZONE POPULATION WHICH PINS
HOPES FOR FREEDOM AND REUNIFICATION ON SURVIVAL FREE WEST
BERLIN AND AMERICAN STEADFASTNESS IN REFUSING DEAL WITH
ULBRICHT REGIME.

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SS NO: 437, DECEMBER 2, 5 PM (SECTION TWO OF TWO)
W G SP C LSENT BONN 388 DEPARTMENT 437 REPEATED INFORMATION PARTS 92
Moscow 144 London 78

DGB ORGANIZATION SLEITER HAAS HAS FOUND NERVOUSNESS AMONG WORKS COUNCILS, AND SAID THAT IN SEVERAL FACTORIES COUNCILS HAVE REFUSED DISPLAY DGB POSTERS ATTACKING SED. ON OTHER HAND, SPERRLING, HEAD TRADE UNION PRODUCTIVITY INSTITUTE AND SPD CANDIDATE FOR HOUSE, SAID HE FOUND RANK AND FILE WORKERS SOUND, AND HAD HEARTENING WORD ABOUT SPD FUNCTIONARIES, SAYING THEY HAD BEEN SHOCKED OUT OF DOLDRUMS. NEUTRALISTS AMONG THEM ARE ABANDONING "OHNE MICH" ATTITUDES AS RESULT OF CRISIS, HE SAID, AND ELECTION RALLIES BETTER ATTENDED AND PUBLIC AT LARGE SHOWING MORE INTEREST AND LITTLE OPEN ANXIETY. METAL WORKERS UNION CHAIRMAN GALLE IS URGING WORKERS VOTE AS SIGN OF DEFiance SED.

ARMY DGB DEPUTY CHAIRMAN GIERSCH, SPERRLING AND OTHERS CONFIDENT THAT IF SOVS BANKING ON EXPLOITING "WAR OF NERVES" THIS WILL AIR BOOMERANG LIKE BLOCKADE IF ALLIES REMAIN FIRM AND MAKE NO NIC CONCESSIONS, PARTICULARLY TO GDR.

C. ECONOMIC REACTIONS

THERE HAS BEEN SOME DISSATISFACTION WORRIES RE SHORT-TERM ECONOMIC REPERCUSSIONS. STRONG PLEAS BY WEST GERMAN INDUSTRIAL ASSOCIATION URGING INCREASE IN ORDERS AND INVESTMENTS WEST BERLIN APPEAR HAVE HAD GOOD EFFECTS, ALTHOUGH SMALL FIRMS WITHOUT WEST GERMAN AFFILIATIONS EXPERIENCING SOME CANCELLATION ORDERS. THERE IS NATURAL CONCERN OVER EFFECT SOVIET DEADLINE ON ORDERS FOR GOODS REQUIRING MORE THAN SIX MONTHS TO DELIVER.

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- 2 - 437, DECEMBER 2, 5 PM FROM BERLIN (SECTION TWO OF TWO)

ANNOUNCEMENT DECISION SIEMENS TO INCREASE CAPACITY BERLIN PLANTS BY DM 36 MILLION INVESTMENT MADE IMMEDIATELY AFTER RELEASE SOV NOTES AND DECISION AUTO UNION INCREASE BERLIN PRODUCTION NEW MODEL CAR COMPONENTS HAVE HAD HEARTENING EFFECT.

BUSINESS CIRCLES GENERALLY FEEL THAT SOV FREE CITY PROPOSAL DESIGNED STERILIZE CITY ECONOMICALLY. THEY BELIEVE, HOWEVER, THAT BERLIN PROBLEM NOW POSED SO SHARPLY IN SOV NOTE THAT THERE CAN BE NO EVADING OF ISSUE BY WESTERN POWERS.

STOCK MARKET HAS FLUCTUATED, WITH DOWNWARD TREND, SINCE SECRETARY'S NOV 26 PRESS CONFERENCE AND ANNOUNCEMENT SOV NOTE. DECLINE PRICE BERLIN SHARES CONTINUES GREATER THAN THOSE WEST GERMAN SHARES.

NO RECENT SIGNIFICANT CAPITAL MOVEMENTS. PRESIDENT CENTRAL BANK GLEIMIUS REMARKED THAT OF ALL POSSIBLE ECONOMIC EVENTUALITIES HE LEAST CONCERNED ABOUT CAPITAL FLIGHT, SINCE IN EVENT MAJOR TROUBLE OCCURS, CAPITAL NO SAFER IN WEST THAN IN BERLIN.

EAST MARK QUOTATION ROSE OVER WEEKEND TO 3.7 PER 1 DM WEST AND DROPPED SLIGHTLY TO 3.79 TODAY. NOV 9 RATE OF EXCHANGE 4.25 EAST FOR 1 DM WEST.

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NOTE: DELAYED IN TRANSMISSION

NOTE: MR. HILLENBRAND'S OFFICE (GER) NOTIFIED 3:40 P.M.,
12/4/58, CWO/M.

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